

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-05 NSAE-00 RSC-01 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 L-02 H-01 PRS-01 PA-01 USIA-06 FEAE-00 INT-05

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TO SECSTATE WASHDC 9937

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AMCONSUL ZURICH

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E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJECT: SWISS VIEWS ON INTERNATIONAL FINANCIAL SCENE

1. SUMMARY. EMBASSY OFFICERS HAD OPPORTUNITY DECEMBER 4 AND 5 HEAR VIEWS OF SEVERAL PROMINENT SWISS BANKERS ON CURRENT INTERNATIONAL MONETARY SITUATION, INCLUDING SUCH TOPICS AS PETRODOLLAR RECYCLING, RENEWED UPWARD PRESSURE ON SWISS FRANC, AND RACTION TO U.S. INTENTION SELL 2 MILLION OUNCES GOLD IN JANUARY. END SUMMARY.

2. FELIX SCHULTHESS, LONG-TIME BOARD CHAIRMAN OF SWISS CREDIT BANK, IN ADDRESS TO ZURICH LUNCH OF AMERICAN CHAMBER OF COMMERCE DECEMBER 5, EXPRESSED HOPE THAT U.S. \$25 BILLION
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FINANCING FACILITY PROPOSAL WOULD "OVERCOME THE MANY

OBSTACLES FROM VARIOUS SIDES" AND CONTRIBUTE THROUGH WELL-COORDINATED INTERNATIONAL BURDEN-SHARING ACTION TO RE-ESTABLISHMENT BY GOVERNMENTS OF CLIMATE WHICH WILL PERMIT INTERNATIONAL BANKS TO RESUME THEIR ROLE IN RECHANNELING FUNDS. SCHULTHESS ALSO MADE PLEA FOR END TO CURRENT SITUATION WHICH ENCOURAGES SHARP AND SUDDEN SHIFT IN EXCHANGE RATES AND CREATION MORE STABLE INTERNATIONAL MONETARY ORDER INCLUDING GREATER ROLE FOR MAJOR OIL PRODUCER COUNTRIES AND INCREASED INTERNATIONALLY ACCEPTABLE RESERVE ASSETS, INCLUDING SDRS AND EXPANDED IMF AND OTHER FACILITIES, BUT WITH BASIC ROLE REASSIGNED TO GOLD AT HIGHER OFFICIAL PRICE. SCHULTHESS CONCLUDED WITH HOPE THAT PRESENT OIL-INDUCED FINANCIAL IMBALANCE AND HIGH OIL PRICES MAY BE ONLY TEMPORARY PHENOMENA GIVEN HIGHLY UNSTABLE POLITICAL SITUATION, SOURCES OF ENERGY IN OTHER THAN OPEC COUNTRIES, AND LONG-TERM INVESTMENT AND MILITARY HARDWARE NEEDS THROUGHOUT ARAB WORLD AND IN LDCS.

3. RENEWED UPWARD PRESSURE ON SWISS FRANC TO 2.66 RANGE DECEMBER 5 DESPITE NEGATIVE INTEREST CHARGE ON NON-RESIDENT SF BANK DEPOSITS, IMMEDIATE CONVERSION REQUIREMENT FOR FOREIGN SF FIXED-TERM ISSUES, STIFFER RESERVE REQUIREMENTS ON FOREIGN LIABILITIES, AND OTHER MEASURES HAS APPARENTLY CONVINCED SWISS BANKING COMMUNITY THAT AUTHORITIES WILL SHORTLY BE FORCED TAKE ADDITIONAL MEASURES SHIELD SF FROM INWARD FLOWS OF FUNDS. FOR DOMESTIC MONETARY POLICY REASONS SWISS NATIONAL BANK (SNB) APPARENTLY INTENDS TO CONTINUE REFRAINING FROM EXCHANGE MARKET INTERVENTION BUT NEW CONTROLS ON FOREIGN PURCHASES SWISS BONDS AND STOCKS ARE ANTICIPATED SINCE STOCK PURCHASES BY FOREIGNERS WERE ALLOWED IN EARLY 1974, FOREIGN INTEREST IN SWISS EQUITIES HAS BEEN SLIGHT ALTHOUGH OUR SOURCES NOTE SOME RECENT IMPROVEMENT. BOND PURCHASES FROM ABROAD HAVE APPARENTLY RECENTLY BEEN SUBSTANTIAL AS THIS ONE WAY TO MOVE INTO SF TO OBTAIN MODEST YIELD WITH HOPE FOR FURTHER CURRENCY APPRECIATION AND WITHOUT RISKS OF EQUITIES OR NEGATIVE CHARGE IN CASE OF DEPOSITS. GENEVA BANKERS AT LUNCH WITH AMBASSADOR DECEMBER 4 THOUGHT SNB AND GOS MUST CLEARLY AVOID EXCHANGE RATE MOVEMENTS HARMFUL TO SWISS EXPORTS. DESPITE OBVIOUS ADMINISTRATIVE AND PERSONNEL PROBLEMS, BANKERS HALF-SERIOUSLY TALKED OF NEED FOR TWO-TIER FRAME WITH COMMERCIAL SF AT AROUND 2.50 TO DOLLAR AND LIMITED OFFICIAL USE

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FINANCIAL IN RANGE OF 4.

4. SWISS BANKERS SAY THAT ARAB OIL FUND MANAGERS CONTINUE SHOW STRONG PREFERENCE FOR INITIAL PLACEMENT IN LONDON OR NEW YORK, PARTICULARLY IN GOVERNMENT SECURITIES, ALTHOUGH THEY SEE EVIDENCE OF SECONDARY FLOWS INTO SWITZERLAND, GERMANY AND NETHERLANDS. INVESTMENT IN U.S. AGRICULTURAL REAL ESTATE WAS OF PARTICULAR INTEREST TO GENEVA BANKERS

DECEMBER 4 AND MENTIONED ALSO BY SCHULTHESS. LATTER RECOGNIZED POTENTIAL PROBLEMS POSED BY OPEC COUNTRY ACQUISITION OF SUBSTANTIAL SHARES OF COMPANIES IN INDUSTRIAL COUNTRIES AND SUGGESTED GREATER ROLE FOR CONSUMER COUNTRY GOVERNMENTS IN GUARANTEEING OR MANAGING INWARD PETROFLOWS INTO PRIVATE SECTOR.

5. DESPITE PAST HINTS OF USG GOLD SALES, SWISS WERE TAKEN BY SURPRISE BY SIMON DECEMBER 3 ANNOUNCEMENT OF JANUARY SALE. MOST OF OUR SOURCES HAD ASSUMED U.S. BLUFFING AND THAT ANY ACTUAL SALES WOULD ONLY BE OF TOKEN CHARACTER. SOME FEELING EXISTS THAT TIMING MAY HAVE BEEN MISTAKE AND THAT IMMEDIATE RESULT WILL BE WEAKER DOLLAR BECAUSE RESERVE ASSETS HELD BY U.S. BEING SURRENDERED AND ONLY MODERATE GOLD PRICE DROP ON ASSUMPTION SALE WILL NOT SOON BE REPEATED OR AT LEAST NOT TO ANY SUBSTANTIAL DEGREE.
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